

VZCZCXRO4955
RR RUEHROV
DE RUEHAE #0954/01 3521204
ZNY CCCCC ZZH
R 181204Z DEC 07
FM AMEMBASSY ASMARA
TO RUEHC/SECSTATE WASHDC 9338
INFO RUCNIAD/IGAD COLLECTIVE
RUEHDO/AMEMBASSY DOHA 0104
RUEHLO/AMEMBASSY LONDON 1554
RUEHFR/AMEMBASSY PARIS 1732
RUEATRS/DEPT OF TREASURY WASHDC
RUEPADJ/CJTF-HOA J2X CAMP LEMONIER DJ
RUEKDIA/DIA WASHDC
RUEAIIA/CIA WASHDC
RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHDC
RUCNDT/USMISSION USUN NEW YORK 0679

C O N F I D E N T I A L SECTION 01 OF 02 ASMARA 000954

SIPDIS

SIPDIS

LONDON AND PARIS FOR AFRICA WATCHERS

E.O. 12958: DECL: 12/17/2017
TAGS: [EFIN](#) [ECON](#) [PREL](#) [MASS](#) [ER](#)
SUBJECT: ERITREA'S THREADBARE ECONOMY

REF: A) ASMARA 158 B) MCMULLEN-SKORUPSKI E-MAIL
12/12/07

Classified By: Ambassador Ronald K. McMullen for reasons 1/4 (b) and (d).

11. (C) Summary: As Eritrea's exports total less than USD 20 million per year, how does the government fund one of the largest standing armies in Africa and keep the threadbare, statist economy from collapsing completely? A fairly modest amount of revenue accrues from the two percent diaspora tax, but the real windfall has come from controls on hard currency inflows. With these traditional revenue sources in jeopardy from counter-productive Eritrean economic policies, transfers from North African and Gulf countries, perhaps with strings attached, may be increasingly crucial to the cash-strapped Isaias regime. End Summary.

12. (C) Diaspora Tax

The Eritrean government attempts to levy a two percent income tax on overseas Eritreans. Overseas Eritreans are sometimes also asked to make special contributions to the motherland. As reported refs, a portion of the diaspora tax funds embassy operations. Some of this tax revenue finds its way via Malta to Eastern European arms vendors. Some cash is carried back in the luggage of travelers. How much is involved? How much is collected from individuals in the United States with Eritrean links?

13. (C) The Diaspora Distribution

The director of the MFA's newly created Division of Diaspora Affairs told the ambassador December 12 that Saudi Arabia, with 60,000 Eritreans (mostly domestic workers), has the largest overseas Eritrean community. The former Eritrean ambassador to Saudi Arabia verified the 60,000 figure, adding that it was down from 85,000 a few years ago. Germany is the next largest with 20,000 and Sweden has just over 10,000, according to the director. She was uncertain about the size of the community in the United States but estimated "between 15,000 and 20,000." A check of Post's consular records back to 1997 indicates an estimate of 20,000 may be reasonable.

14. (C) Seven Million Dollars?

If the estimated 20,000 individuals in the United States constitute 7,000 households, and considering that the U.S. median household income is a bit under 50,000 dollars, then two percent of these households' income would total seven million dollars. If Eritreans in Germany and Sweden have similar incomes, and Eritreans in Saudi Arabia make only half as much (being mostly domestics), then the total potential revenue from this two percent tax would be about 28 million dollars from Eritreans in the United States, Germany, Sweden, and Saudi Arabia. Smaller communities in other countries may boost the total to around 35 million dollars.

15. (C) Expensive MiGs

The Russian ambassador recently said that last year Eritrea purchased USD 50 million worth of products from Russia. "Mainly MiGs and Sukhois?" we asked. "No, the Sukhois are Ukrainian, the MiGs are Russian - and they bought from us two of the most advanced model," the Russian ambassador replied with some pride. Post has also heard credible reports of Russian security and aviation contract personal working for the Eritrean military. Thus, if the GSE bought materiel from Russia worth USD 50 million, it would have to spend the equivalent of all of its diaspora tax revenue plus the value of nearly all of Eritrea's pitifully small exports. Clearly something else is at work here.

16. (C) Monopoly Money and Shortages

ASMARA 00000954 002 OF 002

Outsiders (overseas Eritreans and others) transferring money to Eritrea are obliged to trade hard currency to the government for non-convertible nakfa. The IMF estimates that hard currency inflows averaged over USD 400 million per year in recent years. The GSE reported that 80,000 overseas visitors brought in USD 60 million this year. While the nakfa's official value is fixed at 15 to the dollar, the black market rate is a surprisingly low 19 to the dollar, probably more reflective of draconian enforcement than sound underlying economics. The government and its affiliated party have a monopoly on imports. In Asmara today nearly every staple is in short supply; there is almost no milk, flour, sugar, edible oil, or natural gas for cooking. Gasoline is available in some gas stations for over eight dollars per gallon, although diesel is hard to find. Perhaps a quarter of the labor force sits in trenches facing Ethiopia, barely fed and rarely paid. By most reports, the economy is in the worst shape since independence.

17. (C) Unfinished Ghost Town

Driving from central Asmara toward the southwest, one passes some strange sights. First is a vast graveyard of Soviet bloc vehicles that were destroyed in the final throes of Eritrea's 30-year war for independence. A little further out is a swanky new suburb consisting of hundreds and hundreds of large homes -- nearly all unfinished. All work was stopped on these expatriate-financed houses about two years ago when the government insisted that only GSE-affiliated construction companies be utilized. This ghost town suburb is not unique; hundreds of millions of dollars worth of foreign-funded projects have been frozen across the country due to the GSE's increasingly strict control of the economy. What foreigner or overseas Eritrean would risk investing money inside Eritrea now?

18. (C) Regional Sugar Daddies?

Diplomatic contacts, both Arab and Western, point to Qatar as

a key financial backer of the Isaias regime. The Egyptian ambassador (please protect) said the Emir of Qatar has "more money than he knows what to do with" and is looking to extend his influence in the region. Influential Qataris reportedly enjoy short recreational breaks in Massawa, and Isaias frequently travels on aircraft provided by Qatar. A low-ranking MFA employee (strictly protect) alleges that the government of Eritrea has received money from Libya, Saudi Arabia, UAE, Qatar, and various wealthy individuals. Further, the GSE has purportedly been offered financial pledges from the above-listed donors tied to anti-Ethiopian activity in Somalia and within Ethiopia proper. This source claims that shipments of rice and sugar from Libya and flour from UAE are on the way to help sustain Eritrea's military deployment against "Christian" Ethiopia.

19. (C) Comment: Asmara, with its quaint sidewalk cafes, clean streets, and charming colonial architecture, is a mirage city hovering without visible means of economic support above a rocky plain. A sizeable portion of the Eritrean diaspora and many members of the domestic business community have had second thoughts about pumping money into a country with no rule of law and poor prospects for fair return on investment. While the GSE may be counting on gold mining to fill its coffers from 2010 onward, financial assistance from anti-Ethiopian and/or Islamist regional actors in the meantime, may strike some within the GSE as their best bet for a near-term financial lifeline. Given that half or more of Eritrea's population consists of severely oppressed Muslims, Isaias may be playing with fire. End Comment.
MCMULLEN